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Henderson, David R.

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ABSTRACT (ABSTRACT)

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Look at what the "free" broadcasters are saying about the XM-Sirius merger. As this newspaper recently reported, "The radio industry has loudly opposed the deal since it was announced, and broadcasters cite satellite-radio operators as major competitors in securities filings." Traditional radio broadcasters understand that they are competing with satellite radio. And they oppose the merger. This second fact has been underappreciated.

Which effect the merger would create is of course uncertain -- but what competing firms think about the proposed merger is a very strong clue, as they typically have more information about the market than do the regulators. When competitors oppose a merger -- as is the case of "free radio" broadcasters with regard to Sirius and XM -- they must be making a judgment that the "economies-of-scale effect" outweighs the "market-power effect." The FCC should take them at their word.

FULL TEXT

In expressing its strong reservations about the proposed merger between Sirius and XM, the Federal Communications Commission seems to think that there are only two competitors and that a merger would reduce the number to one. But that's true only if the relevant market is the satellite broadcasting market.

In fact, the market is much larger, including at a minimum all existing radio stations. If you doubt that, ask yourself how you would decide whether or not to subscribe to Sirius or XM. Surely a big part of your decision is the quality and range of programming you can get on "free" radio.

That alone is strong enough evidence for allowing the merger. But there is even stronger evidence, and it has to do with how XM's and Sirius's "free-radio" competitors view the merger. Here we might draw upon the wisdom of MIT economist Morris Adelman, who wrote about 50 years ago: "A useful if not very precise index of the strength of competition . . . is the resentment of unsuccessful competitors."

In other words, if some competitors in an industry resent others and even end up going out of business, competition is alive and well. It's when the competitors get too cozy that we need to worry. It follows that if existing competitors oppose a merger, the merger is likely to be good for consumers.

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Suppose you buy regularly from a firm that wants to merge with another firm in the same industry. You might worry that the merged firm would use its increased market power to raise the price you pay. But imagine if you notice that these two firms' other competitors are among those clamoring for the government to prevent the merger.

Would these other competitors oppose the merger if they thought the merger would raise prices for what you bought? Not likely. If that is what they thought would happen, these other competitors would love the merger -- because it would allow them to raise their own prices somewhat, or to keep their prices the same but sell more.

If they oppose the merger, the reason is far more likely to be that they fear the net effect would be to lower the prices of the goods or services they sold -- which means that consumers would be better off with the merger than without.

How can a merger lead to lower prices? A larger firm might have increased market power, allowing it to raise prices; but the larger firm might have economies of scale, leading to reduced costs and lower prices.

Which effect the merger would create is of course uncertain -- but what competing firms think about the proposed merger is a very strong clue, as they typically have more information about the market than do the regulators. When competitors oppose a merger -- as is the case of "free radio" broadcasters with regard to Sirius and XM -- they must be making a judgment that the "economies-of-scale effect" outweighs the "market-power effect." The FCC should take them at their word.

Of course, this is not a foolproof criterion. If competitors began to anticipate that regulators would take into account their opposition to, or support of, a merger, they might try to game the system. If they actually wanted the merger blocked, they would publicly support it. If they thought prices would rise after the merger to their benefit, they might publicly oppose it.

But we can trust that the FCC is not thinking that way, as it is still hung up on a fallaciously narrow definition of the market. This is the bottom line: If the FCC cares about consumers and not about making things cozy for traditional broadcasters, it should allow the XM-Sirius merger.

Mr. Henderson is a research fellow at the Hoover Institution and co- author of "Making Great Decisions in Business and Life" (Chicago Park Press, 2006).